

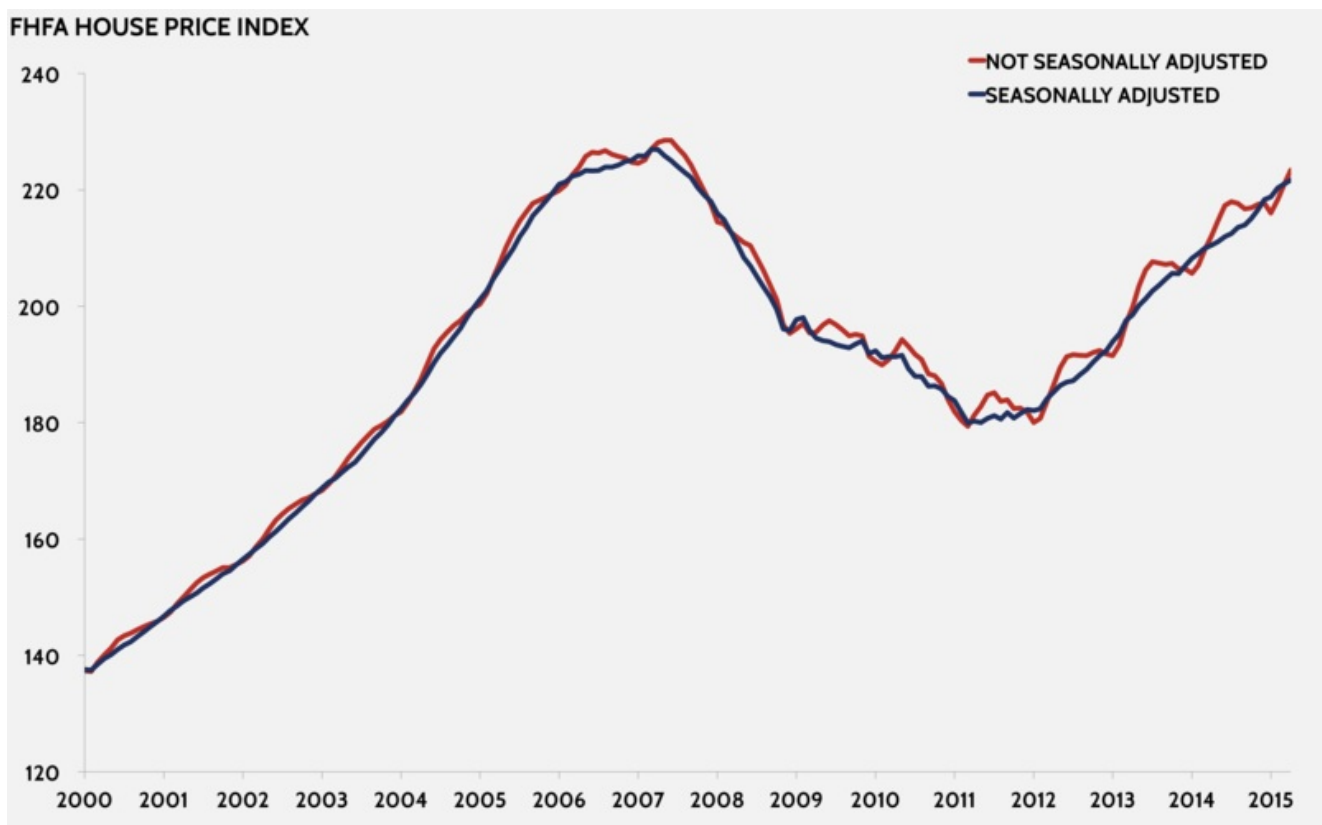
The massive real estate bubble that no one is talking about

The real estate bubble was so 2007.

It burst and a lot of people lost their homes, the banks went bust, and the financial system nearly collapsed, but home prices came down, right?

What if I was to tell you that the real estate bubble has not only been re-inflated, but is now bigger than ever before? You might find it hard to believe because practically no one in the media is talking about it. Yet the information is out there and readily available.

That's not to say the current property bubble is exactly the same. In fact, there are important, fundamental differences that completely change the dynamics of this bubble and need to be recognized.



This first chart shows that even by official numbers, housing prices are already near the peak insanity prices of 2006-2007, and they are still accelerating.

Why no one is talking about that is a mystery to me.

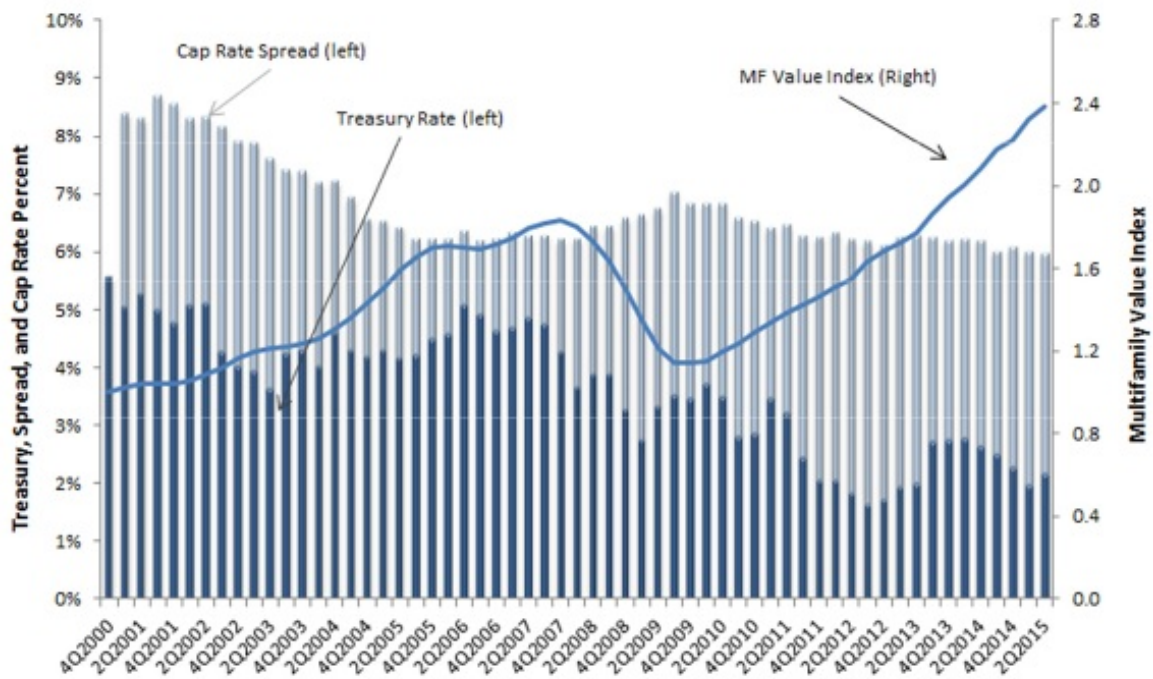
Yet even while housing prices are through the roof, homeownership rates have dropped through the floor.



This chart speaks of a serious crisis.

It also show that this 'echo bubble' in housing is very, very different than the one 2004-2008.

For instance, while everyone is looking at single-family homes as the benchmark for housing, [multifamily unit prices](#) have already left the 2007 peak in the dust.



Sources: Freddie Mac, RCA CPPI™, U.S. Census Bureau, Moody's Analytics

U.S. multifamily-building prices are 33 percent higher than they were at the prior peak in 2007, according to Moody's Investors Service and Real Capital Analytics Inc., a jump stoked partly by the

abundant financing from Fannie Mae and Freddie Mac. That's raised concerns that a bubble is forming that might pop when interest rates rise, according to Levy, the investment banker. **Taxpayers could be on the hook for losses incurred by the mortgage companies if apartment values were to fall sharply.**

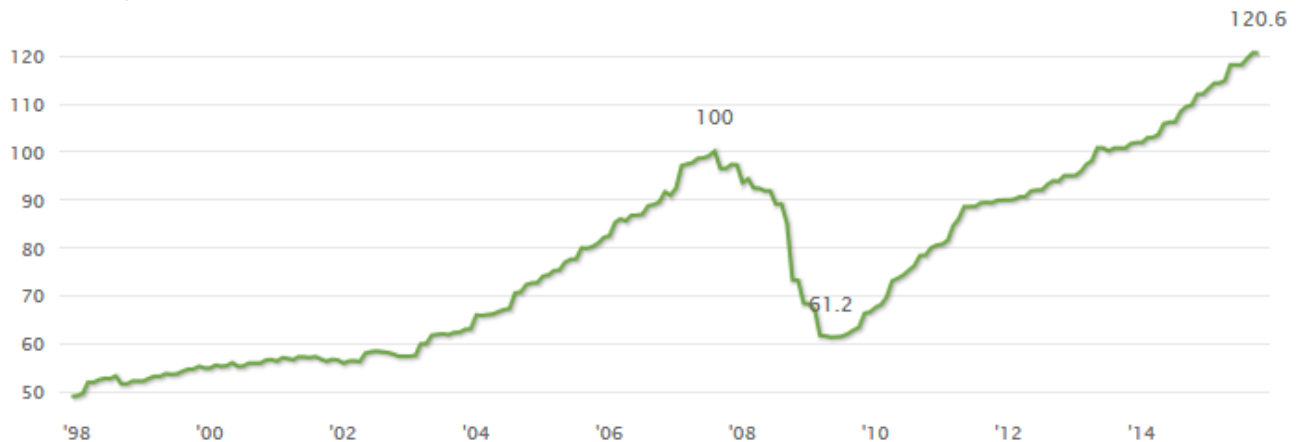
Multifamily property prices have increased on average of [15% per year since 2010](#).

For a better clue, let's look at the [commercial real estate market](#).

The value of the commercial real estate market is roughly equal to the value of the entire stock market, so this is serious.

Green Street Commercial Property Price Index

November 5, 2015



It seems bizarre that we can find ourselves in this position just seven years after the last enormous property bubble burst. It's even more bizarre that everyone is pretending it doesn't exist...again.

If I was to guess, this mass delusion stems from the fact that [the bubble](#) is being created by the deep-pocketed, cash-flush rich, and the people suffering from it are working poor.

Real-estate-data firm Black Knight Financial Services said that in August 21% of mortgages to buy homes—as opposed to refinances—went to borrowers with credit scores below 700. That was down from 24% in August 2014 and from 40% in August 2005.

Some might be inclined to think that this means it's a stronger housing market because the poor aren't involved. But that would be wrong for two reasons:

- 1) Most bubbles are caused by the rich, not the poor.
- 2) A healthy housing market requires the working class to not be priced out of it.

It also shows the weak base underpinning today's housing market. While the upper echelon of mortgage borrowers has piled into the market with home purchases and refinances at rock-bottom rates, borrowers with any sort of tarnish on their credit reports continue to be shut out or stay away.

First-time home buyers are just [30%](#) of the single-family housing market, instead of the historic 40%.

Home values have jumped 34 percent since reaching a bottom in early 2012. Home prices are increasing at [13 times the rate of wages](#). The Housing Affordability Index [dropped 12%](#) in just the first five months of 2015.

Looking at this housing bubble from a more comprehensive perspective, housing is [vastly less affordable now than in 2007](#).

So why aren't people calling these homes massively overpriced like they are? Because the way people traditionally measure whether a home is overpriced is by how much you can rent it for, and rental prices are going nuts as well.

Nearly 21 million rental household, or about half of all rental households, [spent 30% or more of their income on rent](#) in 2013.

11 million households spent at least half of their income on rent and utilities, up 37 percent from 2003.

These cities aren't always very expensive cities. Miami and New Orleans rank near the top in percentage of income going to rent simply because wages are so low.

To make matters worse, rents rose last year at their fastest rate since 2008 and are ["set to accelerate"](#) at "the fastest rate...since the 1980s."

In December 2013, Shaun Donovan, U.S. Secretary of Housing and Urban Development, gave [this warning](#): "We are in the midst of the worst rental affordability crisis that this country has known."

And its only gotten worse. A [recent report](#) came out showing that the most likely future scenario means difficult times are in store for renters.

The number of U.S. households that spend at least half their income on rent—the "severely cost-burdened," in the lingo of housing experts—could increase 25 percent to 14.8 million over the next decade. More than 1 million households headed by Hispanics and more than 1 million headed by the elderly could pass into those ranks...

They've been able to hide this massive real estate bubble by only comparing it to a massive rental bubble. The question is, does anyone care that we've set up the financial system to collapse again? Or are people so enamored by the political horse-race that we are going to ignore it until it blows up again?

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